



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

## Making the grade?

*State leaders assess the 2014 legislative session*

The OER asked state leaders to give the accomplishments of the 2014 legislative session a letter grade and an explanation for that grade. Last session, everyone who participated offered grades. This year, some did not want to submit a grade but offered comments instead.

### Governor Mary Fallin

#### Grade: None

"I'm excited about the direction our state is headed, and I'm proud that the 2014 legislative session continued to push us in the right direction. The budget passed this year is a responsible, balanced budget that makes necessary

cuts while adequately funding state government.

"While many agencies will receive cuts, the budget delivers a much needed \$80 million funding increase for K-12 education and \$36.8 million in pay raises for the state's most underpaid employees.

"I signed into law a responsible, measured income tax cut that makes our state more competitive and able to attract good jobs. I also signed a bill to place future hires into a 401K-style pension model commonly used in the

private sector and approved continuation of a key tax incentive program that reduces costs for oil and gas companies drilling new wells in Oklahoma."

### State Treasurer Ken Miller

#### Grade: B-

"With inconsistent changes to education policy and a lack of action on major financial issues, this session seemed to fall short until many items came together at the last minute.

"On the positive side, substantial progress was made as lawmakers began

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## Report Card

	2013 Session	2014 Session
Governor Mary Fallin	A	<b>None</b>
Senate President Pro Tem Brian Bingman	A	<b>None</b>
House Speaker Jeff Hickman	-	<b>None</b>
House Speaker T.W. Shannon	A-	-
State Treasurer Ken Miller	A-	<b>B-</b>
State Chamber CEO Fred Morgan	A	<b>B</b>
OPEA Executive Director Sterling Zearley	I	<b>B</b>
OCPA President Michael Carnuccio	B	<b>B</b>
OK Policy Director David Blatt	D	<b>F</b>



## Secretary's Commentary

By Secretary of Finance Preston L. Doerflinger

### One-time funds one more time

At the start of the 2014 session, policymakers had \$188 million less in certified revenue to appropriate for the next year's state budget.

So how, then, did next year's appropriations wind up totaling only \$102 million less than this year's?

Simple: The governor and Legislature went digging under the couch cushions of government and found another \$291 million available to spend.

The catch? A lot of this money came from sources most observers consider to be one-time funds.

In this newsletter a year ago, I wrote: "With revenues and legislative appropriations back to pre-recession levels, tapping vast amounts of one-time funds for general appropriations can inadvertently overgrow government by artificially inflating revenues over actual collections. It also leaves a smaller pot to draw from should revenues decrease. While it isn't always problematic, it should be a rare exception, not the rule. It can be risky business."

In that same newsletter, I also wrote about how pleased I was that the Legislature had heeded a request from the governor to stop using one-time funds for ongoing expenses. At

that time, we had all agreed to phase the practice out in two steps over two fiscal years. True to our word, we cut one-time funding in half from FY 13 to FY 14.

But the second step never happened. With \$188 less in certified revenue to appropriate for FY 15, one-time funds came back into play one more time. Once again, we began looking in every government account for excess cash to help balance the budget.

**“The governor and Legislature went digging under the couch cushions of government and found another \$291 million available to spend.”**

Some of the choices made were less than ideal, but I believe there is merit in the larger concept.

Conceptually, if there is unused, unneeded money sitting in some government account, it should be used elsewhere in government or sent back to the taxpayer.



But how those choices are made is important. Today, the process used to make those choices is too political and too reliant on so-called "one-time funds." It shouldn't be.

To get those factors out of the mix, the state could easily implement an annual process whereby funds in agency accounts that are not needed for reserves, operations or upcoming one-time expenses would be automatically reconciled using sound financial practices. Proceeds realized through the reconciliation could then be certified by the Board of Equalization for appropriation by the Legislature.

This would represent a more conservative, fiscally responsible approach to managing state finances. I think it is worth strong consideration by policymakers.

Thankfully, most of the one-time money we scraped together this year

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## Doerflinger

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will go for one-time expenses, which is far more appropriate than using it for ongoing operating expenses.

For good reason, financial ratings agencies don't like it when any entity – especially government – uses one-time money for ongoing expenses. As proof, look no further than Kansas, which just saw its credit rating

downgraded largely due to excessive, prolonged use of one-time money for operating expenses.

In this area, we certainly don't want to be like Kansas.

## Grades

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to move away from an outdated and unaffordable pension system, approved funds to repair the State Capitol, and provided tax certainty to the energy industry.

“On the negative side, lawmakers reverted to overdependence on one-time funds even during an economic expansion, adopted a GA bill larger than last year's even with \$188 million less to spend, passed a tax cut without matching spending cuts and failed to complete the American Indian Cultural Center and Museum.

“And while the pension reform enacted is positive, left undone is addressing OTRS, whose \$8 billion unfunded liability is the largest debt on the state's balance sheet. Also disappointing, especially given the tight budget year, is the Legislature's refusal to pursue savings and efficiencies like streamlining pension administration.”

### Senate President Pro Tempore Brian Bingman

#### Grade: None

“The session was challenging, yet productive. We were able to continue Oklahoma's economic momentum by passing significant pension reform that will protect current workers, make

our state more attractive to the next generation and help reduce our state's pension debt liability; a tax cut for hard working Oklahomans; balanced our budget while giving \$105 million in new money to common education and cutting government in non-critical areas; brought certainty and fairness to our state's gross production tax collections; a bond to fix our state's crumbling Capitol; and gave pay raises to high-need state employees like social workers, nurses, troopers and corrections officers, based on an independent pay study.

“Given our budgetary challenges, I believe we have served the people of Oklahoma well this legislative session and made progress in making Oklahoma the best place to live and work in the nation.”

### House Speaker Jeff Hickman

#### Grade: None

“This has been a very successful policy session with the passage of numerous significant measures which will shape the future of our state. The House addressed several challenging issues, many of which have been deferred by previous Legislatures for years or even decades.

“We have worked hard to ensure Oklahoma continues to be a leader in

energy production and lowered the tax burden on our citizens. We addressed public safety needs, developed a stable state pension system and increased compensation for state employees. We also found a way to invest more dollars into Oklahoma classrooms, and developed and passed a plan to restore our crumbling State Capitol building.”

### State Chamber President & CEO Fred Morgan

#### Grade: B

“Any session with significant pension reform, a permanent gross production tax rate that encourages capital investment in drilling and the continuation of proven incentives that create jobs is a good one.

“Lawmakers generally stayed very focused on jobs and the economy. This session, the Legislature and governor recognized the need to continue to offer incentives that attract new businesses and encourage existing companies to expand. Several measures passed in this session will enhance capital investment and job creation that keeps Oklahoma competitive in a global economy.

“But there is disappointment about lawmakers not addressing much needed judicial reform or ensuring a first class education system. Rigorous standards

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## Grades

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are a key to making sure students are ready for college or a career when they graduate high school.”

**Oklahoma Public Employees Association Executive Director Sterling Zearley**

**Grade: B**

“This year’s results are the beginning of a multi-year plan to improve state employee compensation. The funds appropriated for salaries for some state employees and the protection of employee benefits lays the groundwork for future compensation improvements that will provide state agencies with the resources necessary to retain and recruit qualified staff to carry out core services to Oklahoma citizens.

“Continual assessment and improvements to compensation will be needed to bring it closer to market,

therefore reducing unnecessary state agency turnover costing taxpayers millions of dollars annually.”

**Oklahoma Council of Public Affairs President Michael Carnuccio**

**Grade: B**

“Oklahoma lawmakers should be commended for enacting real, long-term state government employee pension reform by converting new hires to a defined-contribution, 401k-style plan. Both taxpayers and public-sector retirees will benefit from this fiscal prudence.

“Tax rates were increased on oil and natural gas drilling, but not by nearly as much as what tax consumers demanded. A delayed income tax reduction was passed, but it’s a true tax cut – not tax code manipulation – and will benefit families and job creators when implemented. Expanded educational choice and a host of additional reforms to practice greater efficiency with taxpayer dollars remain unrealized.”

**Oklahoma Policy Institute Executive Director David Blatt**

**Grade: F**

“Our budget shortfall, occurring at a time of a booming energy sector and steady economic growth, is largely the self-inflicted result of policy choices made over many years.

“Policymakers had a real opportunity this session to address some of these issues by closing tax loopholes and ending unnecessary tax breaks. Instead, they made matters worse and dug us deeper into a hole by raiding agency reserve funds to support ongoing operations; by enacting a \$267 million delayed tax cut without any projections of what our future needs will be; and by extending and expanding tax subsidies.

“I offer the failing letter grade, but my initial inclination was to grade lawmakers on the same system as third grade reading tests and give them an Unsatisfactory.”

## Notable quotes from the 2014 session

“It’s a classic ‘only-in-government’ paradox to collect more money than ever but have less to spend.”

– **Secretary of Finance Preston Doerflinger** in a press release about General Revenue Fund collections

“If you stuck a gun to my head and said you have to vote for this budget or else, I would tell you to pull the trigger. This is incredibly deceptive...I was just appalled when I read the part that said the Health Care Authority was cut \$47 million and a couple of pages back got a supplemental appropriation for \$47 million. That was bad enough, until I read that the House of Representatives

was cut 5.5 percent at \$911,000 and then got a supplemental appropriation a couple of pages back for \$1 million.”

– **Rep. David Dank** on the House floor in debate about the budget

“I’m going to say something only a termed-out member can get by with. In the Democrat days they did election-year COLAs. We’ll give you a COLA, come vote for me. Now, we do election-year tax cuts. I’ll cut your taxes, come vote for me. I’m not sure which is more irresponsible.”

– **Rep. Don Armes** in debate in the House A&B Committee

“I don’t think politicians should try to become educators. We have people who are trained in education who far better understand how a student learns. We’re getting into something most politicians don’t understand.”

– **Rep. Ann Coody** in the Oklahoman “Gov. Mary Fallin weighs decision on scrapping Common Core academic standards”

“It has been the position of this caucus that I’m in, up until recently, that we should not promote kids that are not capable of doing the work. And here we are, going back...this is not about

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## Quotes

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education. If it's about education, you're going to make sure the kid can read."

– **Rep. Jason Nelson** on the House floor in debate on the Reading Sufficiency Act

"I hate the thought of having to go to companies like the oil companies or anybody else and tell them we need more revenue as a state. I'm ashamed as a legislator – been here eight years – that ran and said I was going to do this and I was going to do that to help lower state government and help control our budgets and I have not been able to do that."

– **Sen. Bill Brown** on the Senate floor in debate on the gross production tax

"This is an international opportunity. This puts Oklahoma City on the map the way the Thunder puts Oklahoma City on the map. I voted no for the Thunder. I was wrong in that vote. I'm going to vote yes for this because I'm not missing another opportunity to put our state on an international playing field."

– **Rep. Don Armes** in debate on funding for the American Indian Cultural Center

and Museum (AICCM) in the House A&B Committee

"If this result is allowed to stand, I believe it would be appropriate for the people of Oklahoma to question our competency... it will haunt my community for years, and it should haunt the legacy of those in this building who could have done something about it."

– **Sen. David Holt** in a press release on failure to fund the AICCM

"This is the best bad deal I've seen since I've been here."

– **Sen. Greg Treat** on the Senate floor in debate on funding the AICCM

"Every time we discuss pensions in here I feel like it's groundhog day... make no mistake about it. The biggest financial problem in our state is our pension system... the bill is going to come due some day."

– **Rep. David Brumbaugh** on the House floor in debate on pension reform

"History teaches us that people behave

wisely once they've exhausted all other alternatives."

– **Rep. Randy McDaniel** on the House floor in debate on pension reform

"I think that the environment of the employees that we hire has changed... for us to expect this next generation of employees to look for a pension to keep them here for 30 years, it does not meet them in their need."

– **Sen. Rick Brinkley** on the Senate floor in debate on pension reform

"I'm going to reserve judgment as to whether it was a good session or a bad session. It's been a very challenging session at times... and we're glad it's finally over."

– **Governor Mary Fallin** in comments to the Oklahoman and Journal Record following adjournment

"Nothing is permanent in this building, representative. You know that. I firmly believe if Elvis had died in this building he would be alive today."

– **House Speaker Jeff Hickman** on the House floor in questions on changes to the gross production tax rate

## May GRF allocations sufficient to avert revenue failure for now

General Revenue Fund (GRF) allocations in April helped the state avoid declaration of a revenue failure and across-the-board spending cuts to appropriated agencies in the month of May.

While short of the monthly estimate by 1.6 percent, April allocations to the GRF lifted year-to-date revenue to within the five-percent difference between the

estimate and appropriations.

Year-to-date GRF allocations were listed at 95.3 percent of the estimate by the Office of Management and Enterprise Services. Allocations through the end of the prior month had dipped two-tenths of one percentage point below the 95 percent threshold.

In the first 10 months of the fiscal year, GRF allocations have been below

the estimate eight times, off the mark between 17.4 percent in August and one-tenth of one percent in October.

The Oklahoma constitution limits appropriations to 95 percent of the official estimate as set by the State Board of Equalization. Fiscal year allocations through April of \$4.59 billion are less than \$15 million above that 95 percent level.



## Gross receipts & General Revenue compared

The Treasurer's May 5 gross receipts to the treasury report and the Office of Management and Enterprise Services' May 13 General Revenue Fund (GRF) report contain several differences.

April gross receipts totaled \$1.32 billion, while the GRF received \$690.5 million or 52.5% of the total.

The GRF received between 33.1% and 57.1% of monthly gross receipts during the past 12 months.

From April gross receipts, the GRF received:

- Personal income tax: 59.9%
- Corporate income tax: 69.1%
- Sales tax: 45.1%
- Gross production-Gas: 32.4%
- Gross production-Oil: 66.1%
- Motor vehicle tax: 32.4%
- Other sources: 43.9%

April GRF allocations missed the estimate by \$11.2 million or 1.6%. Fiscal year-to-date allocations are below the estimate by \$226.5 million or 4.7%.

For April, insurance premium taxes totaled \$44.99 million.

Tribal gaming fees generated \$11.43 million during the month.

## April gross receipts show continued economic expansion

Oklahoma's April Gross Receipts to the Treasury report again indicates the state's economy continues on an expansionary course, State Treasurer Ken Miller announced at a State Capitol news conference.

Monthly collections of \$1.32 billion exceed last April's receipts by 3.3 percent. April's growth brings 12-month collections to \$11.62 billion, 3.5 percent higher than receipts from the trailing 12 months.

"These numbers indicate Oklahoma's economic expansion is ongoing," Miller said. "As is historically the case in April,

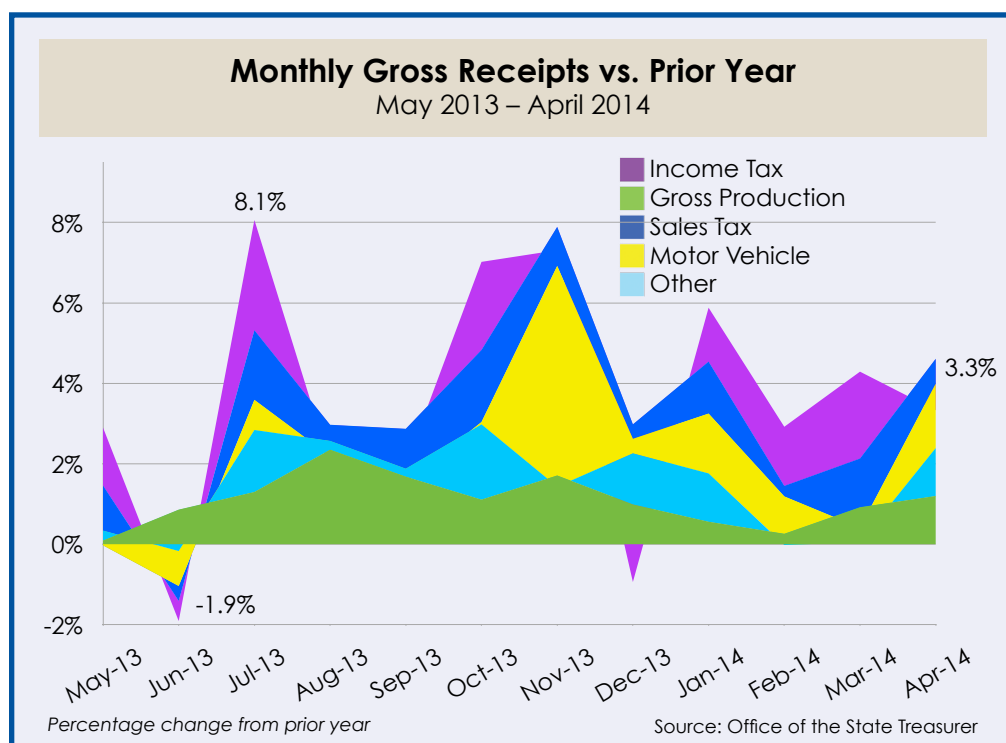
most of the money is from income tax collections. However, the largest percentage increases this month are from gross production and motor vehicle receipts."

**“These numbers indicate Oklahoma's economic expansion is ongoing.”**

The only major revenue stream that is lower than last year is corporate income tax, off by more than 30 percent.

Corporate income tax tends to be one of the more volatile of Oklahoma's revenue sources due to many unique characteristics involving strategic business decisions on retained earnings,

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## Oklahoma unemployment rate drops in April

Oklahoma's seasonally-adjusted unemployment rate was listed at 4.6 percent in April by the Oklahoma Employment Security Commission, a reduction of 0.3 percentage points from March.

Compared to April 2013, statewide employment increased by 14,580 jobs, while the number of those jobless dropped by 11,180 people according to the preliminary, seasonally-adjusted figures. The labor force increased by 3,400 over the 12-month period.

The national unemployment rate was set at 6.3 percent in April.

### State Unemployment Report

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
<b>Apr '14</b>	<b>4.6%</b>	<b>1,816,350</b>	<b>1,732,330</b>	<b>84,020</b>
Mar '14	4.9%	1,823,900	1,734,290	89,610
Feb '14	5.0%	1,825,140	1,734,200	90,940
Jan '14	5.2%	1,824,560	1,730,470	94,090
Dec '13	5.4%	1,823,410	1,724,920	98,480
Nov '13	5.5%	1,822,060	1,722,590	99,480
Apr '13	5.3%	1,812,950	1,717,750	95,200

\* Data adjusted for seasonal factors

Source: OESC

## Revenue

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dividend payments, loss carryovers and credits.

Miller said higher oil and gas prices in February helped drive gross production collections higher in April. Gross production payments are made two

months following extraction and sale of the oil and gas. "Oklahoma's energy industry continues to boost the state's economic health," he said.

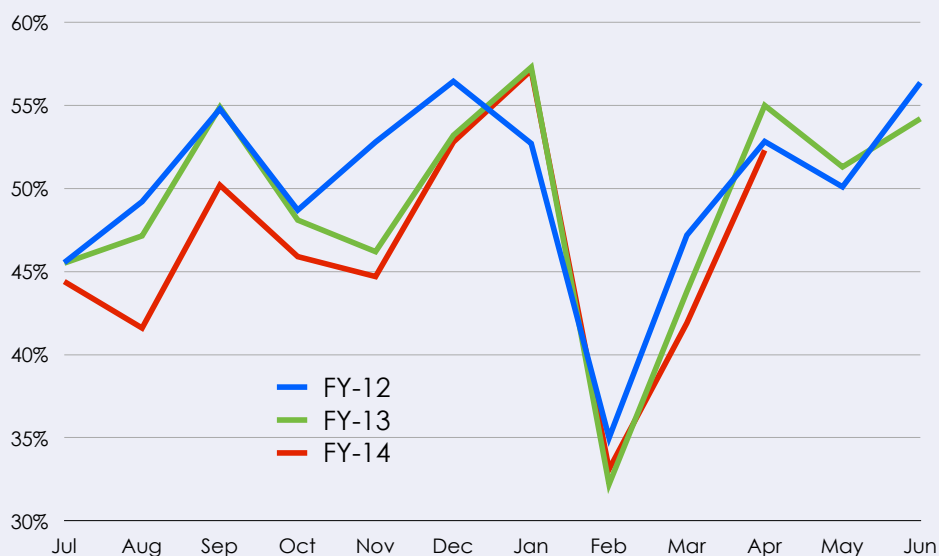
Sales tax collections, often viewed as a measure of consumer confidence, show Oklahomans remain positive. Sales tax receipts are up by over two percent from last April.

### About Gross Receipts to the Treasury

Since March 2011, the Treasurer's Office has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state's macro economy.

As announced by Governor Mary Fallin, it is released in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

### Percentage of Gross Receipts Allocated to General Revenue Fund



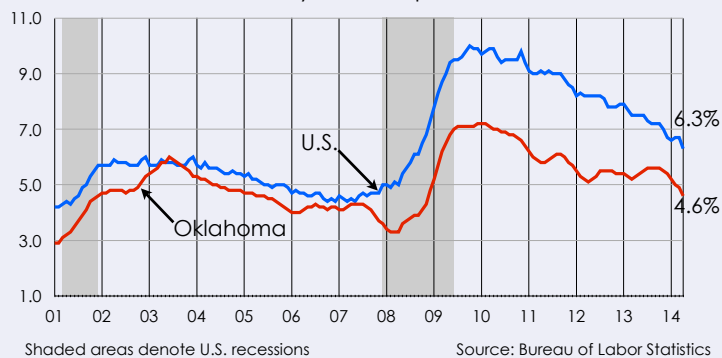
Source: Office of the State Treasurer



## Economic Indicators

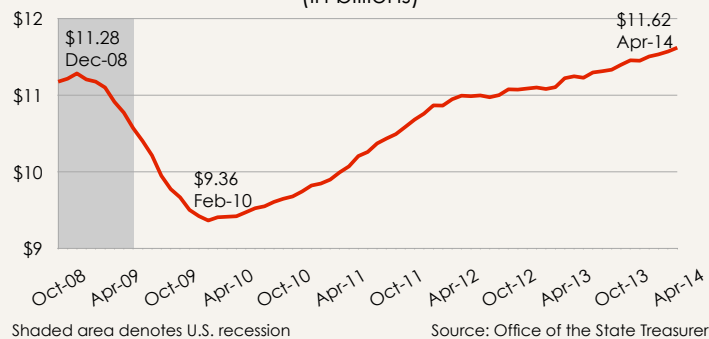
### Unemployment Rate

January 2001 – April 2014

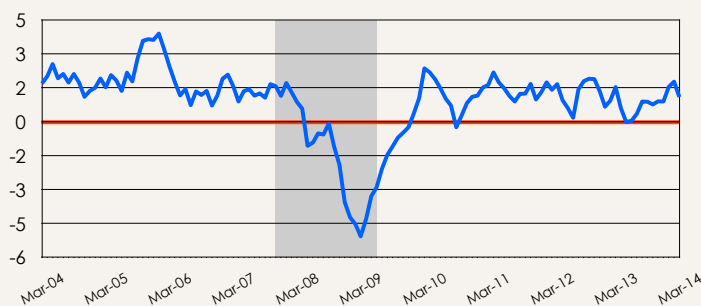


### Oklahoma 12-Month Gross Receipts

October 2008 - April 2014  
(in billions)



### Leading Index for Oklahoma

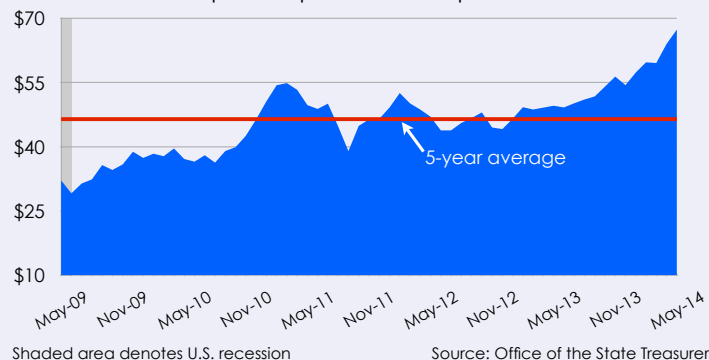


This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings. Shaded area denotes U.S. recession

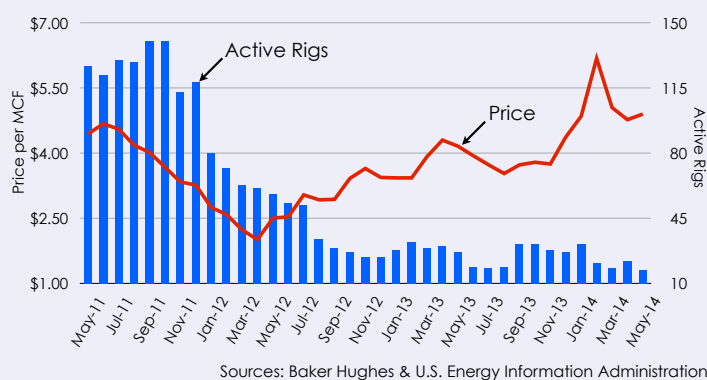
Source: Federal Reserve

### Oklahoma Stock Index

Top 25 capitalized companies



### Oklahoma Natural Gas Prices & Active Rigs



### Oklahoma Oil Prices & Active Rigs

